

Message Text

CONFIDENTIAL

PAGE 01 STATE 281154

60
ORIGIN EB-03

INFO OCT-01 ISO-00 SS-14 EUR-08 SP-02 INR-05 SSO-00 INRE-00

/033 R

DRAFTED BY EB/ORF/FSE:SWBOSWORTH/MVCREEKMORE:LS

APPROVED BY EB - JULIUS L. KATZ

DESIRED DISTRIBUTION

ISO,

----- 055179

O 270138Z NOV 75

FM SECSTATE WASHDC

TO USMISSION OECD PARIS IMMEDIATE

C O N F I D E N T I A L STATE 281154

STADIS//////////

LIMDIS

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: INFORMAL NON-PAPER ON ENERGY COMMISSION AND OIL PRICE ISSUE.

FOR SHINN

1. PLEASE PASS FOLLOWING INFORMAL PAPER TO LANTZKE TO ASSIST SECRETARIAT IN PREPARATION OF IEA PAPER ON OIL PRICE ISSUE IN DIALOGUE, AS AGREED AT LAST GOVERNING BOARD MEETING. PAPER SHOULD BE USED ONLY BY SECRETARIAT ON A NON-ATTRIBUTIVE BASIS.

QUOTE: ENERGY COMMISSION AND OIL PRICE ISSUE. THE INDUSTRIALIZED COUNTRIES SHOULD SEEK TO KEEP ENERGY AND THE OIL PRICE ISSUE AS CENTRAL, ALTHOUGH NOT EXCLUSIVE, ELEMENT OF THE OVERALL DIALOGUE. HOWEVER, WE DO NOT THINK THAT WE CAN OBTAIN --AND SHALL NOT SEEK-- A MEANINGFUL POLITICAL AGREEMENT.

CONFIDENTIAL

PAGE 02 STATE 281154

MENT ON PRICE. OUR HEAVY DEPENDENCE ON IMPORTED OIL GIVES

THE PRODUCERS A DOMINANT MARKET POSITION. THEY WILL RETAIN THIS MARKET DOMINANCE FOR AT LEAST THE NEXT FEW YEARS, OR UNTIL OUR EFFORTS TO SHIFT THE WORLD SUPPLY/DEMAND BALANCE FOR OIL BEGIN TO PRODUCE RESULTS. THUS, THEY ARE UNLIKELY TO CEDE ANY OF THIS MARKET POWER IN A POLITICAL NEGOTIATION AT LEAST NOT UNTIL THEY ARE CONVINCED THAT WE CAN SHIFT THE SUPPLY/DEMAND BALANCE IN A MAJOR WAY.

THEY ARE LIKELY TO USE THE ENERGY DIALOGUE TO PRESS THEIR DEMANDS FOR INDEXATION OF OIL PRICES IN ORDER TO OBTAIN LEGITIMIZATION OF THEIR MASSIVE PRICE INCREASES OF 1973-74 AND TO HELP NEUTRALIZE LDC PRESSURES TO FOREGO FURTHER INCREASES. BUT THE PRICE THEY WILL LIKELY BE WILLING TO PAY FOR INDEXATION IS VERY LOW, I.E. MAINTENANCE OF REAL PRICES. OUR CURRENT ASSESSMENT IS THAT MARKET AND LDC PRESSURES, COMBINED WITH THE KEY ROLE OF OPEC MODERATES ON THE PRICING ISSUE, WILL NOT PERMIT OPEC TO RAISE REAL PRICES VERY MUCH, IF AT ALL, OVER THE NEXT FEW YEARS.

THEREFORE, UNLESS OUR SUBSEQUENT ANALYSIS INDICATES THERE IS IN FACT A MEANINGFUL RISK OF AN INCREASE IN REAL PRICE WE CONCLUDE THAT ANY PRODUCER/CONSUMER AGREEMENT NOW ON PRICES WOULD BE CONTRARY TO CONSUMER INTERESTS. IT WOULD GIVE OPEC THE LEGITIMIZATION IT SEEKS, SET PRECEDENTS FOR OTHER COMMODITIES, AND BE REGARDED BY OUR PUBLICS AS CAPITULATION TO OPEC MARKET POWER. MOREOVER, THE HISTORY OF PRICING AGREEMENTS WITH THE PRODUCERS DEMONSTRATES THAT AN OIL PRICE AGREEMENT WOULD ACTUALLY PROVIDE LITTLE, IF ANY, EFFECTIVE PROTECTION AGAINST INCREASES IN REAL PRICES SHOULD MARKET CONDITIONS SHIFT (E.G. SUBSTANTIAL RISE IN DEMAND).

NEVERTHELESS, WE SHOULD USE THE DIALOGUE TO REINFORCE THOSE PRESSURES NOW OPERATING TO CONSTRAIN OPEC'S ABILITY TO RAISE PRICES, INCLUDING LDC PRESSURES AND THE GROWING PERCEPTION BY SOME OPEC MEMBERS OF THEIR OWN DIRECT STAKE IN THE ECONOMIC WELL-BEING OF THE INDUSTRIALIZED COUNTRIES. THIS WILL REQUIRE CAREFUL AND CONVINCING ANALYSIS IN THE ENERGY COMMISSION OF THE LINK BETWEEN OIL PRICES AND ECONOMIC GROWTH AND STABILITY.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 281154

AS THE ENERGY COMMISSION PROCEEDS, WE WILL HAVE OPPORTUNITY TO ASSESS WHETHER SOME SORT OF LOOSELY STRUCTURED CONSULTATIVE ARRANGEMENT WOULD BE A USEFUL FOLLOW-ON TO THE COMMISSION. SUCH A CONSULTATIVE FRAMEWORK COULD GIVE CONSUMERS A NEW MEANS OF MAKING THEIR CASE TO PRODUCERS IN ADVANCE OF OPEC PRICING DECISIONS. BUT AGAINST THAT POSSIBLE BENEFIT WILL HAVE TO BE WEIGHED THE POLITICAL NEED TO AVOID ANY LEGITIMIZATION OF CURRENT PRICES OR

FUTURE OPEC PRICING DECISIONS.

TACTICS: DESPITE OUR SUBSTANTIVE ASSESSMENT THAT IT IS NEITHER DESIRABLE NOR FEASIBLE TO SEEK A PRICE AGREEMENT, OUR OVERALL APPROACH TO THE ENERGY DIALOGUE MUST TAKE INTO ACCOUNT 1) THE EXPECTATIONS OF OUR PUBLICS THAT THE PRICE ISSUE WILL BE THE FOCAL POINT OF THE DISCUSSIONS, AND 2) THE NEED TO AVOID A COMPLETELY PASSIVE POSITION ON THE

PRICE ISSUE WHICH MIGHT IMPLY AN ABSENCE OF CONCERN. THEREFORE, WE SHOULD FOR TACTICAL PURPOSES ENSURE THAT THE COMMISSION'S WORK FEATURES THE PRICE ISSUE PROMINENTLY. BY MAINTAINING A STANCE FOR LOWER OIL PRICES, IN A NON-CONFRONTATIONAL WAY, WE CAN INCREASE POLITICAL PRESSURE ON OPEC TO MODERATE ITS PRICE DEMANDS; INDICATE IMPLICITLY THE NEED FOR OPEC TO BE FORTHCOMING IN THE ENERGY COMMISSION IN ORDER TO MAKE MAXIMUM PROGRESS IN THE OTHER COMMISSIONS; AND LATER JUSTIFY OUR INABILITY TO GO FURTHER IN THE OTHER COMMISSIONS THAN WE ARE PREPARED TO DO SO FOR OTHER REASONS ON OPEC'S UNCOOPERATIVE ATTITUDE TOWARD OIL PRICES.

WE WOULD LEAVE OPEN THE OPTION OF DECIDING, ONCE THE COMMISSION IS UNDERWAY, TO TAKE A SOMEWHAT MORE AGGRESSIVE POSITION ON PRICE IF THAT SEEMS IN OUR INTEREST. WE COULD, FOR EXAMPLE, DECIDE TO COUNTER MORE DIRECTLY OPEC'S DEMANDS FOR INDEXATION BY MAKING THE CASE FOR A SUBSTANTIAL REDUCTION IN CURRENT PRICES IN MORE EXPLICIT AND DIRECT FASHION THAN DURING THE INITIAL PROCESS OF ANALYSIS. SUCH A DECISION WOULD NOT IMPLY ANY CHANGE IN OUR EARLIER CONCLUSION THAT EVEN AGREEMENT TO INDEXATION WOULD NOT BE SUFFICIENT LEVERAGE TO OBTAIN OPEC AGREEMENT TO A MEANINGFUL PRICE REDUCTION. BUT IT WOULD PERHAPS

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 281154

IMPROVE OUR TACTICAL POSITION VIS A VIS THE DEMAND FOR INDEXATION AND COULD MAKE MORE EXPLICIT OUR JUSTIFICATION FOR NOT MOVING FURTHER IN OTHER AREAS OF THE OVERALL DIALOGUE.

STRUCTURE OF WORK IN COMMISSION: THE FIRST TASK OF THE ENERGY COMMISSION SHOULD BE AN IN-DEPTH ANALYSIS OF THE WORLD ENERGY MARKET AND THE FUTURE SUPPLY AND DEMAND FOR OIL. AS PART OF THIS ANALYSIS, WE WOULD MAKE AND DOCUMENT THE FOLLOWING ARGUMENTS FOR LOWER PRICES OR PRICE MODERATION: --A LOWER PRICE WOULD ASSIST THE INDUSTRIALIZED ECONOMIES RECOVER MORE RAPIDLY, INCREASE THE DEMAND FOR OIL, AND ASSIST LDCS BY INCREASING DEMAND AND PRICES FOR THEIR EXPORTS.

--ANY FURTHER PRICE RISE WOULD SERIOUSLY DAMAGE THE RECOVERY PROCESS TO THE DETRIMENT OF DEVELOPMENT IN BOTH OPEC AND THE LDCS.

--THE CURRENT PRICE IS MUCH TOO HIGH TO ACHIEVE ANY LONG-RUN EQUILIBRIUM IN THE OIL MARKET BETWEEN PRODUCTION CAPACITY AND OIL DEMAND, HEIGHTENING THE DANGER OVER THE NEXT FIVE TO TEN YEARS OF AN OIL MARKET CRASH, AND PRICE INSTABILITY.

--THE CURRENT PRICE IS LARGELY RESPONSIBLE FOR THE ENORMOUS LDC DEFICITS, EITHER DIRECTLY IN THE FORM OF INCREASED COSTS FOR LDC OIL IMPORTS OR INDIRECTLY THROUGH INDUCING THE CURRENT WORLDWIDE RECESSION AND THE SLACK DEMAND AND FALLING PRICES FOR LDC EXPORTS.

--EVEN ON THE OPEC RATIONALE FOR INDEXATION OF PRICES TO TAKE ACCOUNT OF INFLATION, CURRENT PRICES ARE TOO HIGH IF ONE TAKES AN APPROPRIATE BASE YEAR.

--HIGHER PRICES WOULD REACT UNFAVORABLY ON POLITICAL RELATIONS AND ON ECONOMIC COOPERATION EFFORTS WITH OPEC COUNTRIES, NARROWING DEVELOPED COUNTRY OPTIONS FOR DEALING WITH OUR ENERGY PROBLEMS AND PANDER TO MORE CONFRONTATIONAL ELEMENTS AND MILITARISTIC ELEMENTS IN OUR SOCIETIES.

CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 281154

NON-PRICE ISSUES: SINCE WE DO NOT EXPECT TO REACH AGREEMENT ON PRICE IN THE DIALOGUE, WE SHOULD DEMONSTRATE A CONSTRUCTIVE ATTITUDE TOWARD COOPERATIVE EFFORTS BETWEEN PRODUCERS AND CONSUMERS IN OTHER ENERGY AREAS. THIS APPROACH SHOULD STRENGTHEN THE HAND OF THE MODERATE MEMBERS OF OPEC AND ENCOURAGE NON-OIL LDCS TO CONTINUE AND INCREASE THEIR PRESSURE ON OPEC FOR PRICE RESTRAINT. IT SHOULD ALSO ELIMINATE THE RISK OF EARLY CONFRONTATION OVER PRICE THAT COULD DESTROY THE USEFULNESS OF THE DIALOGUE OR LEAD TO A FINAL WEAK AND POLITICALLY UNACCEPTABLE REPORT OF THE ENERGY COMMISSION'S WORK AT THE SECOND MINISTERIAL.

THUS, IN THE ENERGY COMMISSION WE SHOULD PURSUE, WHERE IT IS IN OUR INTEREST, FACILITATION OF THE INTEGRATION OF OPEC ECONOMIES INTO OUR FINANCIAL AND TRADING SYSTEMS. WE SHOULD CHAMPION JOINT EFFORTS BY THE INDUSTRIAL NATION AND THE OIL PRODUCERS TO PROVIDE RELIEF FOR NON-OIL LDCS' ENERGY BURDENS. WE SHOULD ALSO STRESS THE MUTUAL ADVANTAGE OF COOPERATION IN DEVELOPING NEW ENERGY SUPPLIES TO MEET EXPANDING DEMANDS IN THE POST-OIL ENERGY ERA.

END QUOTE. KISSINGER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PAPERS, PETROLEUM, PETROLEUM PRODUCTION, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 27 NOV 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: woolflhd
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE281154
Document Source: CORE
Document Unique ID: 00
Drafter: SWBOSWORTH/MVCREEKMORE:LS
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750412-0780
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975116/aaaaaevt.tel
Line Count: 223
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: woolflhd
Review Comment: n/a
Review Content Flags:
Review Date: 29 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 MAY 2003 by ShawDG>; APPROVED <30 DEC 2003 by woolflhd>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INFORMAL NON-PAPER ON ENERGY COMMISSION AND OIL PRICE ISSUE.
TAGS: ENRG, IEA
To: OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006